CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 22, 2016

H.R. 677
American Heroes COLA Act of 2015

As ordered reported by the House Committee on Veterans' Affairs on September 17, 2015

SUMMARY

H.R. 677 would modify several mandatory programs administered by the Department of Veterans Affairs (VA), including disability compensation and burial benefits. H.R. 677 also would provide a permanent annual cost-of-living adjustment (COLA) to the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation. That provision would increase direct spending for veterans' benefits by $72.7 billion over the 2016-2025 period. However, because the COLA is assumed in CBO's baseline pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act, enacting that provision would have no budgetary effect relative to that baseline.

CBO estimates that the other provisions of H.R. 677, including a requirement that the increases resulting from the COLA be rounded down to the next whole dollar, would increase net direct spending by $5.8 billion over the 2016-2025 period relative to CBO's baseline. Because the bill would affect direct spending, pay-as-you-go procedures would apply. Enacting H.R. 677 would not affect revenues.

In addition, the bill would change the administration of VA's fiduciary program and several other programs in ways that would require an increase in the number of VA employees. CBO estimates that implementing those changes would cost $176 million over the 2016-2020 period, assuming appropriation of the estimated amounts.

CBO estimates that enacting the legislation would increase net direct spending and on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2026.

H.R. 677 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 677 is shown in Table 1. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 677

	By Fiscal Year, in Millions of Dollars					
	2016	2017	2018	2019	2020	2016-2020
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	-24	-30	13	104	258	321
Estimated Outlays	-24	-30	13	104	258	321
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	*	45	47	41	42	176
Estimated Outlays	*	45	47	41	42	176

Notes: In addition to the direct spending effects shown here, enacting H.R. 677 would affect direct spending beyond 2020 (see Table 2). CBO estimates that total direct spending would increase by $5.8 billion over the 2016-2025 period.

Components may not sum to totals because of rounding; * = less than $500,000.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes the legislation will be enacted early in calendar year 2016, that the necessary amounts will be appropriated each year, and that outlays will follow historical spending patterns for similar and existing programs.

Direct Spending

H.R. 677 would modify veterans’ compensation, pension, and burial benefits. In total, CBO estimates that enacting the legislation would, on net, increase direct spending for those programs by $5.8 billion over the 2016-2025 period (see Table 2).

TABLE 2. IMPACT OF H.R. 677 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
Use of Non-VA Medical Opinions in Claims for Disability Compensation												
Estimated Budget Authority	0	23	93	216	404	678	1,016	1,364	1,695	2,009	736	7,498
Estimated Outlays	0	23	93	216	404	678	1,016	1,364	1,695	2,009	736	7,498
Annual COLA												
Estimated Budget Authority	-24	-53	-81	-113	-147	-181	-219	-255	-288	-326	-418	-1,687
Estimated Outlays	-24	-53	-81	-113	-147	-181	-219	-255	-288	-326	-418	-1,687
Expansion of Eligibility for Medallions												
Estimated Budget Authority	*	*	1	1	1	1	1	1	1	1	3	5
Estimated Outlays	*	*	1	1	1	1	1	1	1	1	3	5
Benefits for Coastwise Merchant Mariners												
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	*	1
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	*	1
Total Changes in Direct Spending												
Estimated Budget Authority	-24	-30	13	104	258	498	798	1,110	1,408	1,684	321	5,817
Estimated Outlays	-24	-30	13	104	258	498	798	1,110	1,408	1,684	321	5,817

Note: Components may not sum to totals because of rounding; COLA = cost-of-living adjustment; * = less than $500,000.

Use of Non-VA Medical Opinions in Claims for Disability Compensation. Section 7 would prohibit VA from conducting its own medical examination in cases where a veteran submits a private medical opinion in support of a claim for disability compensation unless VA can substantiate why the private medical opinion is insufficient to decide the claim. Currently, VA almost always conducts its own medical exams even if veterans submit private medical opinions. Section 7 would take effect one year from the date of enactment of the bill.

CBO expects that allowing veterans to choose the physician that would provide the deciding medical opinion on whether a veteran is disabled and whether that disability could be traced to their time in service would lead to significantly more veterans receiving disability ratings and to higher levels of disability ratings. Furthermore, we expect that effect would increase over time as private doctors gained experience with the VA system. Medical literature shows that doctors who have an established relationship with a patient tend to provide more favorable reports for those patients than doctors who are seeing the patient for the first time, as is the case with a VA-ordered examination.[1] Furthermore, veterans would be able to visit multiple doctors in order to gain the most favorable medical report.

CBO expects that the majority of claims for disability where a private medical exam would make a difference are those for subjective disabilities (i.e., mental disorders, nerve disorders, and back pain) or disabilities for which different examiners are more likely to provide different conclusions. Over time, CBO anticipates that the percentage of veterans submitting private medical opinions would increase. In CBO's analysis, enacting section 7 would:

- Increase the average amount of disability compensation for veterans who currently receive compensation, as those veterans can request a reevaluation at any time and would be more likely to do so under the bill;

- Increase the average amount of disability compensation paid to veterans newly awarded a disability compensation rating; and

- Increase the number of veterans who receive compensation by enabling some of those who would be denied benefits under current law to be awarded a disability rating.

In total, CBO estimates that enacting section 7 would result in about 360,000 more veterans receiving an additional $7.5 billion in disability compensation over the 2016-2025 period.

Current Beneficiaries. On average, about 15 percent of veterans currently receiving disability compensation come to VA to be reevaluated every year. In recent years, current beneficiaries have had their disability ratings increased by an average of 10 percentage points as a result of those reevaluations. CBO estimates that under current law about 4.1 million veterans will be receiving disability compensation in 2017, and that 653,000 will return to VA to be reevaluated.

Based on information from VA, CBO estimates that about 40 percent of rated disabilities fall into the subjective category. Under section 7, CBO expects about 60 percent of the reevaluations (increasing to 75 percent by 2025) would involve a private medical opinion. Based on a review of existing literature, CBO expects that the average disability rating would increase by 10 percentage points for 10 percent of the claims reevaluated in 2017

---

1. Simen Markussen, Knut Røed∗, Ole Røgeberg, "The changing of the guards: Can family doctors contain worker absenteeism?", *Journal of Health Economics*, vol 32 (2013), pp. 1230-1239, http://dx.doi.org/10.1016/j.jhealeco.2013.10.005

(increasing to 30 percent of such claims in 2021 and thereafter).[2] Thus, about 8,200 veterans currently on the rolls in 2017 (about 49,000 in 2025) would receive an increase of 10 percentage points in their disability rating. The average disability rating for a veteran who has been reevaluated is 50 percent; increasing that rating to 60 percent would represent an annual benefit increase of $4,900 in 2017 (increasing to $5,900 in 2025). After accounting for inflation and mortality, CBO estimates that enacting section 7 would increase direct spending for veterans currently on the rolls by $6.9 billion over the 2016-2025 period.

Annual Accessions. Over the 2012-2014 period, the VA disability compensation program added an average of 290,000 new beneficiaries per year. As with current beneficiaries, CBO estimates that about 40 percent of rated disabilities for those new accessions fall into the subjective category. Under section 7, CBO expects that those veterans who did not file a claim immediately after being discharged from military service would provide private medical opinions and receive increased disability ratings at the same rates and with the same incremental increase as current beneficiaries. CBO expects that veterans who apply to VA immediately after being discharged from military service would be much less likely than other veterans to obtain private medical opinions, but those that do would see the same increases as other new accessions. Thus, we estimate that 15 percent (increasing to 25 percent by 2025) of newly discharged veterans would submit a private medical opinion. On that basis, CBO estimates that about 1,700 veterans in 2017 (increasing to about 6,200 veterans in 2025) would receive a 10 percentage point increase in their disability rating (from an average of 40 percent to 50 percent). That would amount to an average annual increase of about $3,200 in 2017 (increasing to about $3,900 in 2025). After accounting for inflation and mortality, CBO estimates that enacting section 7 would increase direct spending for new accessions by $525 million over the 2016-2025 period.

Newly Eligible Applicants. On average, VA denies about 20 percent of all claims for disability compensation. Under section 7, CBO expects that some veterans who would otherwise be denied would receive a disability rating because of their use of private medical opinions. Based on the number of new accessions per year and similar rates of subjective disabilities, use of private medical opinions, and award rates, CBO estimates that about 630 veterans who will be denied under current law would under the bill receive a disability rating in 2017, increasing to 1,725 by 2025. CBO estimates that this cohort would receive an average rating of 10 percent (about $1,630 annually in 2017). After accounting for inflation and mortality, CBO estimates that section 7 would increase direct spending for veterans who would be denied a disability rating under current law by $87 million over the 2015-2026 period.

---

2. Helge Liebert, *Medical Screening and Moral Hazard in Disability Insurance: Evidence from Switzerland* (Center for Disability and Integration, School of Economics and Political Science, University of St. Gallen, 2014) http://www.hha.dk/nat/larss/CAFE2014/HLiebert.pdf

Annual COLA. Section 8 would provide a permanent annual cost-of-living adjustment to the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation. The COLA would equal the cost-of-living adjustment payable to Social Security recipients and would take effect on December 1 of each year.

The COLA that would be authorized by this bill is assumed in CBO's baseline, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act. Because the COLA is assumed in CBO's baseline, enacting this provision would have no budgetary effect relative to that baseline (the COLA effect assumed in the baseline over the 2016-2025 period amounts to $72.7 billion). On October 15, 2015, the Social Security Administration announced that the COLA for 2016 would be zero percent, and thus have no effect on disability compensation payments in 2016.

Section 2 also would require that increases in the monthly rates resulting from the COLA be rounded down to the next lower whole dollar. This provision would apply to both disability compensation and dependency and indemnity compensation payments. A similar requirement expired at the end of 2013. CBO expects that, on average, this requirement would reduce each monthly payment issued in the first year by 50 cents. In the second year, the COLA would be applied to that reduced amount and again rounded down by an average of 50 cents. Those savings would continue to compound in subsequent years, with the resultant amount rounded down again each year. Based on information from VA, CBO projects that an average of 5.5 million veterans and survivors will receive 12 monthly payments each year over the next decade. On that basis, CBO estimates that this section would result in direct spending savings of about $1.7 billion over the 2016-2025 period.

Expansion of Eligibility for Medallions. Section 2 would allow the survivor of an eligible deceased veteran to receive a VA-furnished medallion instead of a headstone or marker for use in a private cemetery. Eligible veterans are those who served in the armed forces on or after April 6, 1917. Under current law, VA can only provide a medallion for eligible veterans buried in private cemeteries who died on or after November 1, 1990. Based on information from VA, CBO expects about 5,400 such requests to be made per year. At a cost of about $100 per medallion, CBO estimates that enacting section 2 would increase direct spending by about $5 million over the 2016-2025 period.

Benefits for Coastwise Merchant Mariners. Section 15 would extend eligibility for burial benefits and medals, ribbons, or decorations to merchant mariners who served off of the coast of the United States between December 7, 1941, and December 31, 1946. Based on information from VA and the U.S. Coastwise Merchant Seamen's Association, CBO estimates that in 2016, the survivors of roughly 100 eligible merchant mariners would apply for a burial marker (and be eligible for an outer-burial receptacle) and a ribbon or medallion at a cost of about $1,200 per request. CBO expects the number of applications would decline steadily in subsequent years. Thus, CBO estimates that section 15 would increase direct spending by about $1 million over the 2016-2025 period.

Other Provisions. H.R. 677 contains other provisions that would have a negligible effect on direct spending, primarily because they would shift the timing but not the amount of benefit payments. Specifically:

- Section 5 would allow eligible survivors to begin receiving any survivor's benefits due them before filing a formal claim.
- Section 6 would create a priority list for processing claims for disability compensation.

Spending Subject to Appropriation

H.R. 677 would modify the fiduciary program for veterans and extend a pilot program that allows VA to use contract physicians to complete disability exams. It also would create a pilot program for adjudicating fully developed appeals, require an evaluation of the disability backlog, and require several reports on various functions of VA. CBO estimates that implementing those provisions of the bill would cost $176 million over the 2016-2020 period, assuming appropriation of the estimated amounts (see Table 3).

TABLE 3. IMPACT OF H.R. 677 ON SPENDING SUBJECT TO APPROPRIATION

	By Fiscal Year, in Millions of Dollars					
	2016	2017	2018	2019	2020	2016-2020
Fiduciary Program						
Estimated Authorization Level	0	19	38	39	40	136
Estimated Outlays	0	19	38	39	40	136
Disability Examinations by Contract Physicians						
Estimated Authorization Level	0	22	7	0	0	29
Estimated Outlays	0	22	7	0	0	29
Pilot Program on Fully Developed Appeals						
Estimated Authorization Level	0	2	2	2	2	8
Estimated Outlays	0	2	2	2	2	8
Evaluation of Backlog of Disability Claims						
Estimated Authorization Level	0	2	0	0	0	2
Estimated Outlays	0	2	0	0	0	2
Reports						
Estimated Authorization Level	*	*	*	*	*	1
Estimated Outlays	*	*	*	*	*	1
Total Changes in Discretionary Spending						
Estimated Authorization Level	*	45	47	41	42	176
Estimated Outlays	*	45	47	41	42	176

Notes: Components may not sum to totals because of rounding; * = less than $500,000.

Fiduciary Program. Effective one year after the legislation's enactment, section 9 would make significant changes to VA's fiduciary program. That program provides or approves fiduciaries for veterans who cannot manage their financial affairs. The fiduciaries receive and manage the veterans' benefits on their behalf. The provision would require VA to:

- Determine the competency of individuals appointed as fiduciaries;
- Remove certain fiduciaries deemed incompetent and review the files of fiduciaries appealing such decisions;
- Maintain a list of state, local, or nonprofit agencies that could perform fiduciary duties;
- Require that all fiduciaries provide pertinent accounting details for VA verification;
- Update the qualifications and procedures for certifying a fiduciary to include: visits to proposed fiduciaries, Internet training, and criminal background and credit checks; and
- Notify veterans if a requested fiduciary is unqualified and why, and provide veterans with a notice of certified fiduciaries.

Section 9 also would require VA to maintain a database of all fiduciaries and to submit a report to the Congress on the progress of the program.

Based on information from VA, CBO estimates that the department would need to hire 460 additional employees to carry out the requirements of section 9 at an average cost of about $80,000 per employee in 2016 and increasing thereafter with inflation. We also estimate that the information technology systems necessary to maintain the database would cost about $1 million per year. In total, CBO estimates that implementing section 9 would cost $136 million over the 2016-2020 period.

Disability Examinations by Contract Physicians. Section 11 would extend the pilot program that allows VA to use contract physicians to perform medical disability examinations through December 31, 2017. Under current law, that authority will expire on December 31, 2016. In 2015, about 36,000 exams were completed by contract physicians under the pilot program at a cost of about $800 per exam. Under section 11, we expect a similar number of exams would be performed annually over the 2017-2018 period. In the absence of such authority, VA physicians who would otherwise be providing other types of health care to veterans will perform the exams, at no additional cost to VA. Thus, after accounting for expected inflation, CBO estimates that implementing section 201 would cost $29 million over the 2017-2018 period.

Pilot Program on Fully Developed Appeals. Section 12 would establish a pilot program within the Board of Veterans Appeals (BVA) for veterans who wish to file a fully developed appeal (an appeal for which no further evidence or information will be submitted). Such appellants, upon choosing to file a notice of disagreement with VA, could chose to file a claim using the regular appeals process, or if they believe they have provided all of the necessary information for the BVA to make a decision, could elect to file under the pilot program in order to receive a more immediate decision. Appellants could chose at any point to revert to the standard appeals process. The pilot program established under section 12 would run for five years, beginning one year from the date of enactment of H.R. 677.

Section 12 would require the BVA to establish a development unit that would provide the Board with any federal records, independent medical opinions, and new medical exams that it needs to decide appeals. VA would be required to transfer certain employees from the Veterans Benefits Administration to this new unit inside the BVA. According to VA, about 10 additional employees also would be necessary to achieve the goals of the pilot program while not reducing the timeliness of the current process. VA further reports that such employees (primarily lawyers) would receive salary and benefits amounting to about $150,000 in 2016. On that basis, and accounting for projected inflation, CBO estimates that implementing the pilot program would cost $8 million over the 2016-2020 period.

Evaluation of Backlog of Disability Claims. Effective one year after the date of enactment, section 14 would establish a commission tasked with creating a plan to eliminate the disability claims backlog, improve the disability claims process, and reduce the number of appeals filed for disapproved claims. The commission would have 21 members plus a paid staff and would exist for about seven months. The commission would be required to submit interim reports and a final report within 180 days of the commission's first meeting. Based on the costs of similar commissions, CBO estimates that implementing section 14 would cost about $2 million over the 2017-2018 period.

Reports. Several provisions of H.R. 677 would require VA to submit reports to the Congress. CBO estimates that implementing H.R. 677 would increase costs for preparing reports by $1 million over the 2016-2020 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 677 as ordered reported by the House Committee on Veterans' Affairs on September 17, 2015

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
					NET DECREASE IN THE DEFICIT							
Statutory Pay-As-You-Go Impact	-24	-30	13	104	258	498	798	1,110	1,408	1,684	321	5,817

INCREASE IN LONG TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would increase net direct spending and on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2026.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 677 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On September 29, 2015, CBO transmitted a cost estimate for S. 2082, the Department of Veterans Affairs Expiring Authorities Act of 2015, as cleared by the Congress on September 25, 2015. Section 409 of S. 2082 extended the authority for contract physicians to conduct disability exams from December 31, 2015, to December 31, 2016. Section 11 of H.R. 677 would extend the authority from December 31, 2015, to December 31, 2017. Because S. 2082 is now Public Law 114-158, section 11 would extend the provision for one year instead of two years. The estimated difference in costs is reflected in this estimate.

ESTIMATE PREPARED BY:

Federal Costs: Dwayne M. Wright
Impact on State, Local, and Tribal Governments: Jon Sperl
Impact on the Private Sector: Paige Piper-Bach

ESTIMATE APPROVED BY:

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis